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C O N F I D E N T I A L SECTION 01 OF 02 CHIANG MAI 000175

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SUBJECT: THAIS SEE ECONOMIC BENEFIT FROM CONTRACT FARMING IN BURMA
(C-AL8-02135)

REF: A. STATE 118949 (REQUEST FOR INFORMATION ON FOREIGN INVESTMENT)
[1](#)B. CHIANG MAI 174 (WITHOUT BURMA, EAST-WEST CORRIDOR)
[1](#)C. CHIANG MAI 96 (AFTER NARGIS, A BORDER TRADE BOOM)

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CLASSIFIED BY: Kevin Rosier, Consular-Political Officer,
Consulate General, Chiang Mai.
REASON: 1.4 (b), (d)

Summary and Comment

[1](#)1. (C) Thai contract farming is a growing feature of the Thai-Burmese bilateral economic relationship. The activity remains concentrated in the border areas, however. Thai businesspeople who engage in contract farming in Burma are generally individuals who conduct their business informally with local Karen village leaders, not with the GOB or major Burmese companies. The Thai government views contract farming as an economic policy tool that lowers agricultural prices for Thai consumers, lessens the migrant pull in Thailand, and stimulates demand for Thai goods in Burma. However, the RTG at the national level is not currently engaged in activities to promote contract farming specifically, it is focused on agricultural development through vertical integration and greater control over quality standards, which contract farming helps to achieve.

[1](#)2. (C) Comment: Although it was the Thaksin administration (2001-06) that launched contract farming as a national-level policy, it is at the provincial government level that the program is managed (and expanding) now. With Tak province as the primary government body managing contract farming without much participation from the Thai central government, it is not likely that contract farming will expand far beyond the Democratic Karen Buddhist Army (DKBA) and Karen National Union (KNU) controlled areas across the border. End Summary and Comment.

Scale and Scope of Thai Contract Farming in Burma

[1](#)3. (SBU) Tak is the leading province engaging in Thai contract farming in Burma, according to the Tak Chamber of Commerce and Customs Office. Customs officials said that the official value of goods produced by Thai contract farms in Burma that were imported into Thailand via Mae Sot was \$1.35 million in 2007. However, they estimate the actual value is likely over \$3 million, or three times as much, citing the unofficial nature of much of the trade along the Thai-Burma border.

[1](#)4. (U) Operating contract farms in Burma since 2005, Tak-based investors employ Burmese farmers in neighboring Karen state to

grow corn, green beans, peanuts, and castor beans for export into Thailand. In 2007, Thai contract farms in Burma sent 15,400 tons of corn as animal feed and 1,378 tons of green beans to Thailand, according to the Mae Sot Customs Office. Currently, Thai contract farming covers nearly 100,000 acres of land just across the border in Burma. Over half of this land (53,900 acres) produces corn; and another third (35,400 acres) produces green beans. The remaining 10% of Thai-contracted farm land produces castor beans and peanuts.

Individual Investors Operate Contract Farming

15. (C) In general, Thai businesspeople who engage in contract farming are individuals who are already acquainted with Burmese farming communities in Karen state. The contract is usually a trust-based relationship without any official contract or legal paperwork. In general, a Thai contract farm operator will contact a Karen village leader who will cross the border into Thailand to collect seeds and fertilizers for distribution to farmers. The Thai contractor will offer these inputs to the Burmese farmer on credit; once the crop is sold back to the contractor, the costs of these inputs is deducted from the farmer's revenue.

16. (C) Often the Thai contractor will cross into Burma to check on the status of the farms he has contracted with. After the harvest, the Karen farmers will sell their product to the Thai contractor at the agreed-upon price. If the goods are imported officially and declared to Customs, they are duty-free under an arrangement with Thai Customs, according to the Mae Sot Customs Office. (Note: Despite duty-free privileges, Burmese farmers will often export to Thailand unofficially to avoid the transportation and bureaucratic costs of traveling to the Friendship Bridge in Mae Sot and declaring goods with Thai Customs.)

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17. (C) The RTG and GOB as well as major Thai and Burmese companies do not play any significant role at present in the operation of Thai contract farming in Burma, according to the Tak Chamber of Commerce. In terms of government involvement on the Burmese side, Tak Chamber of Commerce officials say that Thai contractors deal directly with the anti-regime KNU and the pro-regime DKBA in Karen state and have no engagement with the GOB. They admit, however, that in previous high-level meetings between the RTG and the GOB, the Burmese commented that Thai contract farms are currently only of benefit to the minority groups along the border and that Rangoon would like to see more contract farming deeper inside Burma.

18. (C) Because Thai contract farming is generally an informal arrangement between the contractor and farmer directly, major Burmese firms play no role. On the Thai side, only one Thai company engages in contract farming, while the rest are individual businesspeople, according to the Tak Chamber of Commerce. The Mae Sot Customs Office said that this Thai company is the Puenpol Suwanphume Company.

Contract Farming as Potential Economic Policy Tool for Thailand

19. (SBU) The Tak Chamber of Commerce says that contract farming as a policy has significant benefits for Thailand beyond the opportunity to import cheaper agricultural goods. First, contract farming is a way to counter Burmese immigration into Thailand by creating job opportunities within Burma. Second, Thai businesses that produce agricultural inputs (seeds, fertilizer, and farming machinery) benefit by selling or leasing these products to the Burmese farmers. Third, higher incomes in Burma stimulate demand for other goods produced in Thailand -- which are often outlawed in Burma or which have import restrictions -- such as certain consumer goods and construction

materials.

¶10. (C) Despite these benefits, the RTG in Bangkok does not actively promote contract farming in Burma. However, Thailand and Burma signed a Memorandum of Understanding on contract farming in 2005, which they are in the process of revising. Generally, the RTG views the practice as consistent with the promotion of agricultural development through vertical integration and greater quality control. The Bureau of Trade and Investment at the Ministry of Commerce told Embassy Bangkok that while the national policy goal of contract farming is to promote agricultural development in mainland Southeast Asia (see para 11), it is not aware of any major contract farm deals between Thailand and Burma at this time. It also mentioned no ongoing activities in which it is engaged to push the practice as a tool for economic growth.

¶11. (U) Background Note: The RTG under the former Thaksin administration laid the groundwork for contract farming as a national-level policy in 2003. At that time, Thailand, Burma, Laos, Cambodia, and Vietnam signed onto the Ayeyawady-Chaophraya-Mekong Economic Cooperation Strategy (ACMECS), which included contract farming as part of the agreement on trade and agricultural development among the signatories and allowed for duty-free privileges on traded goods from contract farms.

¶12. (U) This cable was coordinated with Embassies Bangkok and Rangoon.
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